

SUMMARY ANALYSIS OF AMENDED BILL

Author: Granlund

Analyst: Colin Stevens

Bill Number: AB 1232

Related Bills: See prior analysis Telephone: 845-3036

Amended Date: 4/07/97

Attorney: Doug Bramhall

Sponsor:

SUBJECT: Jobs Tax Credit/Increase to 25% of First \$10,000 of Wages Paid To Each Employee

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

☒ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _____.

☒ FURTHER AMENDMENTS NECESSARY.

☒ DEPARTMENT POSITION CHANGED TO OPPOSE UNLESS AMENDED.

☒ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED FEBRUARY 28, 1997, STILL APPLIES.

☒ OTHER - See comments below.

SUMMARY OF BILL

Under the Personal Income Tax Law (PITL) and the Bank and Corporation Tax Law (B&CTL), this bill would enact a credit for employers equal to 25% of the first \$10,000 of wages paid to each new employee who was previously unemployed and receiving welfare benefits. The credit would not be allowed to exceed \$2,500 per employee per year, or \$2,500 in the aggregate for each employee.

SUMMARY OF AMENDMENT

The amendments would:

- increase the percentage of the credit for which an employer is eligible from 15% to 25% of wages paid to a qualified employee;
- increase the maximum amount of wages upon which the credit is based from \$3,000 to \$10,000 per year;
- increase the maximum amount of credit which could be allowed per employee from \$600 to \$2,500;
- provide that an employer may receive, from a county welfare agency, the GAIN program or the State Department of Social Services, in addition to the Employment Development Department, written verification that the employee has been receiving welfare benefits and has been unemployed for the 90 days immediately preceding employment with the taxpayer; and
- provide that excess credit may be carried over for 15 years.

DEPARTMENTS THAT MAY BE AFFECTED:

___ STATE MANDATE

___ GOVERNOR'S APPOINTMENT

Department Director Position:

☐ S ☐ O
☐ SA ☒ OUA
☐ N ☐ NP
☐ NA ☐ NAR
☐ PENDING

Agency Secretary Position:

☐ S ☐ O
☐ SA ☐ OUA
☐ N ☐ NP
☐ NA ☐ NAR
DEFER TO _____

GOVERNOR'S OFFICE USE

Position Approved _____
Position Disapproved _____
Position Noted _____

Department/Legislative Director Date

Johnnie Lou Rosas 5/2/97

Agency Secretary Date

By: Date:

SPECIFIC FINDINGS

The discussion of federal and state law in the specific findings in the department's previous analysis of the bill as introduced February 28, 1997, still applies.

Under the PITL and B&CTL, **this bill** would reinstate a credit similar to the prior the Jobs Tax Credit by striking the requirement that the wages must be paid to an individual hired by December 31, 1993. This credit, as discussed in the prior analysis, would be operative with the changes noted above.

Policy Considerations

The policy considerations identified in the department's analysis of the bill as introduced February 28, 1997, still apply. In addition, the following policy concerns have been identified.

The existing federal credit (equal to 35% of qualified wages, to a maximum \$6,000 in wages (\$2,100 credit)) provides an incentive similar to the credit that would be allowed by this bill. A recently proposed expansion of the federal credit would provide a 50% credit for the first \$10,000 in wages. If the federal wage credit is expanded and this bill is enacted, the combination would provide a 75% federal/state credit. Since this credit would not be decreased by the amount of the federal wage credit, it may create an incentive for an employer to hire employees to claim the credits and terminate them once the maximum of federal and state credits have been reached.

The prior state jobs tax credit allowed a maximum aggregate credit equal to \$600, or twice the maximum allowable annual credit of \$300, over twenty-four months. This bill would allow a maximum credit equal to \$2,500 in the aggregate, and \$2,500 per year. If the proposed credit were to mirror the prior credit, the maximum annual allowable amount would be \$1,250, with a maximum aggregate amount of \$2,500, thus ensuring two-year employment to maximize the credit benefits.

While this credit would provide an incentive to hire welfare recipients, it makes no provision that these new employees be hired to fill newly-created positions. Thus, current employees could be displaced so the taxpayer can receive a job credit.

Technical Considerations

The amendments created an inconsistency since the bill now requires the qualifying employee to be certified by the EDD and also allows the county welfare agency, GAIN, and Social Services to provide written verification of the employees eligibility.

The author's office has indicated the intent to resolve this inconsistency and clarify that employees other than those qualifying for the GAIN program should qualify a taxpayer for this credit. The author has indicated that amendments are being prepared to add these other agencies to the Unemployment Insurance Code (UI) Code section regarding certifications.

The author's office has requested the attached amendments to:

- define a qualified employee as an individual who meets the qualifications of Section 328 of the Unemployment Insurance (UI) Code and is employed by the taxpayer;
- add additional agencies that could certify that an individual meets the requirements of Section 328 of the UI Code by moving the reference to such agencies from the Revenue and Taxation Code to the Unemployment Insurance Code;
- clarify that the \$10,000 maximum allowable amount for wages would be \$10,000 for all taxable years;
- eliminate unnecessary election provisions;
- remove the provision recapturing all credits claimed by an employer if in certain circumstances an employee does not qualify for UI Section 328;
- make consistent the reference to a "taxpayer" rather than describing persons claiming the credit as either a "taxpayer" or an "employer" (except where necessary to follow descriptions in federal law);
- clarify the manner that predecessor and successor employers would treat wages for which the credit would qualify;
- require that the taxpayer receive a copy of a decertification notice and make it available to the Franchise Tax Board upon request any time an individual is decertified as meeting the requirements of UI Code section 328; and
- place in Section 328 of the UI Code the requirement that a county welfare agency, the Gain Program, or State Department of Social Services certify eligibility for this program.

The technical considerations identified in the department's analysis of the bill as introduced February 28, 1997, also are resolved by the attached amendments.

FISCAL IMPACT

Tax Revenue Estimate

This bill is estimated to impact PIT and B&CT revenue as shown in the following table. The estimates assume that new hires prior to January 1, 1997, are not eligible.

Fiscal Year Cash Flow Effective 1/1/97 Enactment Assumed After June 30, 1997 \$ Millions		
1997-8	1998-9	1999-0
(\$40)	(\$40)	(\$41)

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Tax Revenue Discussion

The impact of this bill would depend on the number of employers who employ qualified individuals, the average amount of qualified wages paid or incurred for each qualifying employee, and the average credit applied against tax liabilities.

This estimate was developed in the following steps. First, the total number of employees who may qualify was based on information received from the California Department of Social Services (CDSS). According to CDSS, approximately 86,000 individuals for 1996 were registered in the GAIN Program. This number was grown 2% per year to yield 87,720 qualifying individuals for 1997. Second, this number was further adjusted to account for individuals who would be hired in a government agency. Third, for this analysis an average credit amount of \$500 per individual was used (i.e. \$2,000 in wages on average per employee). While not all GAIN individuals would actually be hired in any given year, the number of other welfare recipients not in GAIN who are hired could easily make up for this difference. It was assumed that 75% of the allowable credits would be applied in any given year and 25% of the credits, due to insufficient tax liabilities, would be carried over and applied in the following year.

BOARD POSITION

Oppose unless amended.

The Franchise Tax Board voted April 28, 1997, to oppose the bill unless it is amended to provide that the credit is only available for qualified employees hired to fill newly created positions.

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Attorney Doug Bramhall

FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO AB 1232
As Amended April 7, 1997

AMENDMENT 1

Amend page 2, lines 6-9 as follows:

dollars (\$10,000) of wages paid to each qualified employee. A qualified employee is an employee employed by the taxpayer and who is certified by the Employment Development Department, county welfare agency, GAIN program, or the State Department of Social Services, to meet the requirements of Section 328 of the Unemployment Insurance Code.

AMENDMENT 2

On page 2, amend line 12 as follows:

individual begins work for the taxpayer ~~employer~~, the taxpayer ~~employer~~:

AMENDMENT 3

On page 2, amend lines 14-16 as follows:

Development Department, county welfare agency, the Gain program, or the State Department of Social Services, that the individual meets the requirements of Section 328 of the Unemployment Insurance Code, or
(2) Has requested in writing that certification from the Employment Development department that the individual meets the requirements of Section 328 of the Unemployment Insurance Code.7

AMENDMENT 4

On page 2, strike lines 17-22.

AMENDMENT 5

On page 2, line 25, strikeout "employer" and insert:

taxpayer

AMENDMENT 6

On page 2, amend lines 26-28 as follows:

~~Employment Development Department~~ appropriate certifying body set forth in Section 328 of the Unemployment Insurance Code a written preliminary determination that he or she is a member of a ~~targeted~~ group described in Section 328 of the Unemployment Insurance Code, then the requirement of paragraph (1)

AMENDMENT 7

On page 2, line 30, strikeout "employer" and insert:

taxpayer

AMENDMENT 8

On page 3, amend lines 4-6 as follows:

taxpayer to the ~~same individual~~ qualified employee. With respect to each qualified employee, the aggregate credit under this section, for all taxable years, shall not exceed two

AMENDMENT 9

On page 3, strike lines 23-29, inclusive.

@@@ Legislative Counsel: Please redesignate subdivisions as necessary.

AMENDMENT 10

On page 3, amend line 30 as follows:

~~(e)~~ (d) If the certification of an ~~employment~~ individual has been

AMENDMENT 11

On page 3, amend lines 33-35 as follows:

section shall not apply to wages paid by the ~~employer~~ taxpayer after the date on which notice of revocation is received by the ~~employer~~ taxpayer.

AMENDMENT 12

On page 3, amend lines 39-40 and on page 4, amend line 1 as follows:

~~(g)~~ (f) The credit provided by this section shall ~~be applied~~ only be available with respect to wages paid to each ~~qualifying~~ qualified employee during the 24-month period beginning on the date the qualified employee

AMENDMENT 13

On page 4, strike lines 3-12, inclusive.

@@@ Legislative Counsel, please redesignate subdivisions as necessary.

AMENDMENT 14

On page 4, amend lines 17-19 as follows:

employer shall be made in the same manner as if ~~those~~ the wages paid by the predecessor were paid by the ~~predecessor~~ successor employer ~~referred to in that section.~~

AMENDMENT 15

On page 4, line 21, strike "an employer" and insert:

a taxpayer

AMENDMENT 16

On page 4, strike lines 23-26, inclusive and insert:

another person.

AMENDMENT 17

On page 5, amend lines 1-4 as follows:

(\$10,000) of wages paid to each qualified employee. A qualified employee is an employee employed by the taxpayer and who is certified by the Employment Development Department, county welfare agency, GAIN program, or the State Department of Social Services, to meet the requirements of Section 328 of the Unemployment Insurance Code.

AMENDMENT 18

On page 5, amend line 7 as follows:

individual begins work for the taxpayer ~~employer~~, the taxpayer ~~employer~~:

AMENDMENT 19

On page 5, amend lines 9-11 as follows:

Development Department, county welfare agency, the Gain program, or the State Department of Social Services, that the individual meets the requirements of Section 328 of the Unemployment Insurance Code, or

(2) Has requested in writing ~~that~~ certification from the Employment Development department that the individual meets the requirements of Section 328 of the Unemployment Insurance Code.⁷

AMENDMENT 20

On page 5, strike lines 12-17.

AMENDMENT 21

On page 5, line 19, strikeout "employer" and insert:

taxpayer

AMENDMENT 22

Amend page 5 lines 21-23 as follows:

~~Development Department~~ appropriate certifying body set forth in Section 328 of the Unemployment Insurance Code a written preliminary determination that he or she is a member of ~~a targeted~~ group described in Section 328 of the Unemployment Insurance Code, then the requirement of paragraph (1) or (2) shall

AMENDMENT 23

On page 5, line 25, strikeout "employer" and insert:

taxpayer

AMENDMENT 24

On page 5, amend lines 29-31 as follows:

taxpayer to the ~~same individual~~ qualified employee. With respect to each qualified employee, the aggregate credit under this section, for all income years, shall not exceed two

AMENDMENT 25

On page 6, strike lines 6-12, inclusive.

@@@ Legislative Counsel: Please redesignate subdivisions as necessary.

AMENDMENT 26

On page 6, amend line 13 as follows:

~~(e)~~(d) If the certification of an ~~employee~~ individual has been

AMENDMENT 27

Amend page 6, lines 16-18 as follows:

section shall not apply to wages paid by the ~~employer~~ taxpayer after the date on which notice of revocation is received by the ~~employer~~ taxpayer.

AMENDMENT 28

Amend page 6, lines 23-25 as follows:

~~(g)~~(f) The credit provided by this section shall ~~be applied~~ only be available with respect to wages paid to each ~~qualifying~~ qualified employee during the 24-month period beginning on the date the qualified employee

AMENDMENT 29

On page 6, strike lines 26-35, inclusive.

@@@ Legislative Counsel, please redesignate subdivisions as necessary.

AMENDMENT 30

Amend page 6, line 40 to page 7, line 2 as follows:

employer shall be made in the same manner as if ~~those~~ the wages paid by the predecessor were paid by the ~~predecessor~~ successor employer ~~referred to in that section.~~

AMENDMENT 31

On page 7, line 4, strike "an employer" and insert:

a taxpayer

AMENDMENT 32

On page 7, ~~strikeout~~ lines 6 to 9, inclusive, and insert:

another person.

AMENDMENT 33

On page 7, line 38, after "department," insert:

, county welfare agency, the GAIN program, or the State Department of Social Services

AMENDMENT 34

On page 8, line 12, after "revocation" insert

The applicant shall retain a copy of the certification and revocation and provide it upon request to the Franchise Tax Board.